



Opening Statement
Chairman Michael G. Oxley
Committee on Financial Services

Subcommittee on Oversight and Investigations
“Paying Dividends: How the President’s Tax Plan Will Benefit Individual Investors and Strengthen the Capital Markets”
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The 5th Amendment to the Constitution holds that no person shall be subject for the same offense to be twice put in jeopardy. This same fundamental principle of fairness applied also to our tax laws for the first 150 years in this country, reasoning that the same income shouldn’t be taxed twice. Then in 1936, in the middle of the Great Depression, Congress imposed a double tax penalty on dividends paid to individuals. The distortions and unfairness of this tax penalty became immediately apparent, and Congress has been trying to fix the problem ever since.

President Bush’s jobs and economic growth plan would finally end double tax jeopardy for Americans receiving dividends. More than half of these dividends go to America’s seniors, many of whom rely on these checks as a steady source of income in their retirement. Because the income gets taxed once at the corporate level, and again at the individual level, nine million of these seniors get shortchanged by the government an average of almost \$1,000 a year.

In fact, almost half of all dividend recipients make under \$50,000 per year, and they’re getting up to one-third less than people who can get around the double tax through special offshore or non-taxed entities.

But the double taxation on dividends not only penalizes seniors and other American households, it also has a pernicious and distorting effect on corporations’ fiscal policy. Since corporations can get around the double tax by relying on debt financing and retaining earnings, they leverage themselves to the hilt and go on questionable empire-building acquisition sprees. This results in greater debt, more bankruptcies, more economic volatility, less flexibility in down markets, less efficient allocation of income, and numerous Enron-style tax shelters. Ending the double taxation of dividends is not just an issue of fairness, it’s a necessary reform to improve corporate governance and protect the future health of our economy.

The Council of Economic Advisors estimated that ending the double taxation of dividends would create almost half a million new jobs. A PricewaterhouseCoopers study estimated that ending the double taxation of dividends would increase American welfare by \$339 billion over the next five years. Business investment, which has been one of the single greatest factors weighing down our economy, would turn around, giving an immediate boost to the U.S. economy and enhancing long-term growth.

Federal Reserve Board Chairman Alan Greenspan recently testified before us that “The elimination of the double taxation of dividends will be ... a benefit to virtually everyone in the economy over the long run, and that’s one of the reasons I strongly support it.” President Bush’s proposal to end the double tax on dividends is something we should all support – for our seniors, our workers, and our economy.